



**The Weekly Market Update – 8/26/24: Fed Removes Uncertainty**

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,634.61	1.45%	3.19%	18.13%	22.79%	5,667.20	0.6%
Dow Jones Industrial Average	41,175.08	1.27%	5.26%	9.25%	15.79%	41,198.08	0.1%
NASDAQ Composite	17,877.80	1.40%	0.82%	19.10%	24.62%	18,647.45	4.3%
Russell 2000	2,218.70	3.58%	8.35%	9.45%	10.76%	2,442.74	10.1%
MSCI EAFE (USD)	2,439.48	2.72%	5.39%	9.09%	10.92%	2,439.48	0.0%
MSCI Emerging Markets (USD)	1,100.68	0.64%	1.33%	7.52%	5.14%	1,444.93	31.3%
Bloomberg Commodity Index	96.46	0.78%	-4.49%	-2.22%	-10.14%	237.95	146.7%
Barclays U.S. Aggregate Bond	93.56	0.66%	4.00%	2.02%	4.48%	112.07	19.8%

Source: FactSet

**Both stock and bond prices rallied after Federal Reserve Bank (Fed) Chair Jerome Powell all but assured investors that the Fed will begin lowering interest rates at its upcoming September policy meeting.** Speaking at the annual “Jackson Hole” conference (sponsored by the Kansas City Federal Reserve Bank) on Friday 8/23/24, Mr. Powell said that “the time has come for (interest rate) policy to adjust.” The Jackson Hole comments continued the tradition of using his speech to solidify Fed policy expectations as Mr. Powell left little doubt that at the next policy meeting on 9/18/24, the Fed will implement its first fed funds interest rate reduction since March 2020. Investors reacted positively to the Fed’s encouraging view on inflation (higher confidence that inflation is on a pace to return to +2%) and the U.S. economy (a view that the economy continues to grow at a “solid pace”), along with expected lower interest rates. The widely followed S&P 500 equity index gained +1.1% on Friday alone, capping a +1.5% one-week increase. Ten of eleven S&P 500 sectors (as measured by the Global Industry Classification Standards, GICS) were positive on the week, led by Real Estate and Materials, an indication of more broad-based gains that, in our view, is a welcome development. Further evidence of diverse sector participation was reflected in the strong relative performance of the S&P 500 Equal Weight index, which increased +2.0%. Bond prices rallied as well, driving Treasury yields (TY) lower as the U.S. 10-year TY closed the week at 3.80% (from 3.89% the Friday before) and the U.S. 2-year TY moved to 3.92% from 4.06%. We view the U.S. 2-year TY as a reliable indicator of bond market expectations for future fed funds (which is an overnight bank lending rate set by the Fed) rate levels, and its substantially higher 2024 peak of 5.03% was nearly four months ago on 4/30/24. At least for now, fixed income markets see the potential for multiple (perhaps six or seven -0.25% moves) Fed rate cuts, taking the current fed funds target range of 5.25% to 5.50% to below 4.00% over time (this would extend into 2025). But first, the Fed must begin the process, and there is renewed debate about a cut of 0.25% or 0.50% on 9/18. We believe that bullish equity investors, for now, see a potential 0.50% cut, along with a strong economy. We remain more cautious as recent employment data has slowed.

**Equity gains in August put valuations back to elevated levels.** August began with a sharp S&P 500 decline, down -6.1% over the first three trading days, but gains over the past two weeks have recovered the loss and the index, through 8/23/24 (still one week to go), was up +2.0% in August-to-date (and +18.1% year-to-date). On a price-to-earnings (P/E) basis, the S&P 500 trades at 21.4x the next four quarters (3Q24-2Q25) of estimated (per FactSet) earnings, the highest level this year, and the highest forward P/E since December 2021. Over the past 25 years (since 1999), the index has traded at an average of 16.5x estimated earnings, and over the past 10 years (since mid-2014) the average was 18.2x. We believe that elevated valuations could lead to muted gains going forward, limiting equity market upside from current levels.

**As August comes to a close ahead of the Labor Day holiday (9/2/24), investors await this week’s key earnings reports as well as more inflation data.** With the leading Generative AI semiconductor maker set to release earnings on Wednesday, the report could set the market tone for GenAI momentum in the second half of the year. With the Fed expressing confidence in lower inflation, markets will look for the July PCE inflation reported at +2.6% or lower.

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**Market Indices:** The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between \$200 million and \$5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

U.S. economic growth: Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. The most recent GDP report can be found at [www.bea.gov](http://www.bea.gov). It is reported by the U.S. Bureau of Economic Analysis (BEA). Personal consumption expenditures (PCE) measure consumer spending on goods and services during the period, and is a component of GDP.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is [here](#).

The Federal Reserve Bank of Kansas City's Economic Policy Symposium in Jackson Hole, Wyoming, is one of the longest-standing central banking conferences in the world. The event brings together economists, financial market participants, academics, U.S. government representatives, and news media to discuss long-term policy issues of mutual concern.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The Personal Consumption Expenditures (PCE) price index, released each month in the Personal Income and Outlays report from the Bureau of Economic Analysis, reflects changes in the prices of goods and services purchased by consumers in the United States. Quarterly and annual data are included in the GDP release. It is a measure of consumer inflation that complements the consumer price index (CPI) reported by the Bureau of Labor Statistics.

Earnings growth. We refer to the weighted average (based upon equity market capitalization) of the earnings per shares (EPS) of all S&P 500 companies compared to the prior period (generally year-over-year). We use data as reported in FactSet. 3Q24 is the third quarter of 2024 and 2Q25 is the second quarter of 2025.

Generative Artificial Intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. Early versions were often called “machine learning” and could sift through large data sets and accurately predict single outcomes. Now, generative AI goes further to utilize all forms of inputs. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all ne